Fleet Vehicles Agency

A Special Operating Agency within
Manitoba Transportation and Government Services

Annual Report
for 2004/05

FLEET
VEHICLES AGENCY

REPORT FOR THE YEAR ENDED MARCH 31, 2005

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Fleet Vehicles Agency is a Special Operating Agency
within Manitoba Transportation and Government Services

Letter from the Minister

MINISTER OF TRANSPORTATION
AND GOVERNMENT SERVICES

Room 235
Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

July 11, 2005

The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

It is my privilege and pleasure to present, for the information of Your Honour, the Annual Report of Fleet Vehicles Agency (*FLEET*) for the year ended March 31, 2005.

This Report marks the completion of *FLEET*'s 71st year of operations within the provincial framework. It has been known by several names during that period, including the Fleet Vehicles Branch, the Central Provincial Garage and, since April 1, 1992, Fleet Vehicles Agency.

As a Special Operating Agency, *FLEET* has become a model for other agencies within the province and for alternative service delivery across the country. It continues to perform in line with the expectations of all of its stakeholders.

Respectfully submitted,

R Lemieux

Ron Lemieux
Minister Responsible for
Fleet Vehicles Agency

106-00371/

Letter from the Deputy Minister

Manitoba

Deputy Minister of
Government Services

332 Legislative Building
Winnipeg MB R3C 0V8

Telephone: (204) 945-4414
Facsimile: (204) 945-1857

July 11, 2005

Honourable Ron Lemieux
Minister Responsible for Fleet Vehicles Agency
Manitoba Transportation and Government Services
Room 203, Legislative Building
Winnipeg MB R3C 0V8

Dear Mr. Minister:

It is my pleasure to submit for your review and consideration the Annual Report of Fleet Vehicles Agency *(FLEET)*. This report summarizes *FLEET*'s activity for the year ended March 31, 2005, the Agency's 13th year of operation as a Special Operating Agency.

Staff of the Agency are dedicated to ensuring that products and services provided both protect the environment and service the needs of all of its customers. *FLEET* has committed to continue with these efforts as they seek to extend their products and services to clients within the broader public sector.

On behalf of departmental management, I would like to thank *FLEET*'s management and staff for their continued dedication and commitment to client service.

Respectfully submitted,

Debra Woodgate

Debra Woodgate
Chairperson of the
Fleet Vehicles Agency Advisory Board

Chief Operating Officer's Message

To the Many Stakeholders of Fleet Vehicles Agency (*FLEET*):

Our 13th year as a Special Operating Agency (SOA)! Each year has been an adventure, unique unto itself in the opportunities and challenges presented, with our first year as a SOA probably my most memorable.

A significant portion of *FLEET*'s 2004/05 year was spent assisting the consultants who were awarded the contract to develop an implementation plan to consider the consolidation of the assets and operations of the Agency with those of the Mechanical Equipment Services Branch of Transportation. The consultant's review of both entities uncovered many areas for consideration and rationalization prior to the start of any consolidation process. The consultant's recommendations are currently under review by our department's senior management and by Treasury Board.

We are continuing to investigate and test alternate and other flexible fuel vehicles in the provincial fleet. For hybrid electric vehicles in particular, the basic tenet in our strategy is to take a measured approach to their integration into the government fleet. This gradual integration considers that improvements in hybrid technology are ongoing, that a hybrid servicing infrastructure is still in the early stages of development in Manitoba, and that hybrid prices are still relatively high. Nonetheless, our current fleet of approximately 2,700 units now contains 141 that are classified as Alternate/Flexible Fuel vehicles. Of that number, 129 are capable of running on a combination of gasoline and up to 85% ethanol, 11 are hybrid electric vehicles, and one is a propane bi-fuel van.

Once again, I would like to take this opportunity to extend my appreciation to the management and staff at *FLEET*, and to our numerous stakeholders, clients and partners. The team effort that has been exhibited by all concerned has played a big part in the successes *FLEET* has enjoyed along the way.

Dennis Ducharme
Chief Operating Officer

Profile and Direction of Fleet Vehicles Agency

Fleet Vehicles Agency (*FLEET*) has one of the larger single fleets of vehicles in Manitoba and, as an agency within Manitoba Transportation and Government Services, our main clients are the departments, agencies and crown corporations of the provincial government. As a supplier of complete vehicle management services, we are, however, exploring new market opportunities to provide our services to broader public sector organizations throughout the province.

The fleet currently consists of approximately 2,700 vehicles including trucks (55%), vans (28%), sedans (13%) and ambulances (4%) operating from more than 600 locations throughout the province. Annual distance travelled by the fleet approximates 54 million kilometres and annual fuel consumption for vehicles owned and managed is approaching 10 million litres.

FLEET assumed organizational responsibility for Radio Services as of April 1, 2003, a division that is essentially responsible for the evaluation and supply of the fixed and mobile radio requirements of its provincial and other clients.

On at least an annual basis, the management at *FLEET* scrutinizes its Mission and Vision Statements to ensure that these two important statements reflect the current direction desired by our management and staff, and by our major stakeholders.

Our Mission Statement

"We are committed to provide our clients with a complete range of quality fleet management services to assist in the efficient delivery of public programs."

FLEET's management also formulate operating goals and objectives annually, developing several guiding principles that we feel are important in the achievement of our continuing success. The critical success factors developed for 2004/05 and our results in addressing each factor's related goals and objectives are discussed in this Report in the section "Operating Objectives and Results."

As we at *FLEET* continue to work towards achieving our mission and vision, our actions and our working relationships will also be guided by, and reflect, the following important values:

Satisfy and exceed stakeholder expectations,

Provide dependable and responsive service at competitive prices,

Promote open communication and teamwork,

Encourage individual learning, growth and achievement,

Provide a safe work environment for all employees, and

Eliminate or minimize risks to the environment.

Our Vision Statement

"To provide all vehicle and equipment management services to the broader public sector."

Our Products and Services

Over the past 71 years, *FLEET* has developed a range of products and services to meet the needs of provincial government clients. *FLEET*'s services fall into three main groups: Vehicle Services, Fleet Management Services, and Radio Services.

Vehicle Services include leases, long-term rentals, short-term (daily) rentals, and vehicle insurance and registration. Fleet Management Services cover a whole range of services including a *FLEET* credit card for fuel purchases, repair authorizations, a preventive maintenance program, an invoice payment service, a taxable benefit program, and a complete history of cost, maintenance and distance for each vehicle. Taken together, these two groups of services constitute the Full Service package recommended by *FLEET*. Since the start of the 2003/04 year, *FLEET* now also offers the services of its Radio Services division. This group's technicians install, maintain and repair two-way radios, and service existing radio base stations and remote monitoring devices throughout the province.

FLEET's employees provide complete fleet administration support and vehicle maintenance to our clients from a central Winnipeg administration office and full service repair facility. Throughout 2004/05, our staff used the valuable information collected and stored by Keys™, our Fleet Management Information System, to assist customers in analyzing aspects of their vehicle costs and to provide detailed billing data tailored to each customer's specific needs.

Vehicles currently available range from compact sedans and half ton trucks to full size vans for the majority of our clients. In 2001/02, Manitoba Health added to our vehicle types when it began leasing ambulances for use by the various Regional Health Authorities. Client specifications determine the requirements for vehicles ordered and the flexible lease terms that are arranged.

The average age of the fleet is currently 3.9 years, which is greater than our private sector competitors but comparable to other public sector fleet operations. Our vehicle replacement program maximizes fleet discounts on vehicle purchases, with those discounts reflected through our vehicle lease rates. Although the Agency can recommend optimal vehicle replacement, it is ultimately our clients' decisions when to replace their vehicles, and this is often impacted by funding limitations.

Costs arising from the acquisition and operation of a vehicle are charged monthly to our customers through rent (usually fixed for the term of the lease) and variable (based on kilometres driven) rate structures. Centralized payments of all vehicle operating and administrative costs, including repair and fuel bills, eliminate the administrative task for our customers and allow us to take advantage of discounts and volume rebates.

Our repair facility's qualified personnel provide regular servicing, repairs, parts and bodyshop maintenance. Our garage is an accredited Private and Commercial Vehicle Inspection Centre. We can inspect all types of vehicles including taxicabs, medium and heavy duty trucks, cars and light duty trucks, school and transit buses, ambulances, and air brake equipped vehicles. Our bodyshop is qualified by Manitoba Public Insurance as an accredited Autopac autobody facility.

Although it remains *FLEET*'s intention to concentrate on further development within departments and agencies of the provincial government and to make further inroads with provincial crown corporations, our vision since 1992 has been to advance new market opportunities and services on a limited basis to the broader public sector within Manitoba. Our current objective is to approach specific target markets and prospective new clients who expressed interest in the past, and to promote and position ourselves to commence the process of tapping into these markets.

Structure for Operations

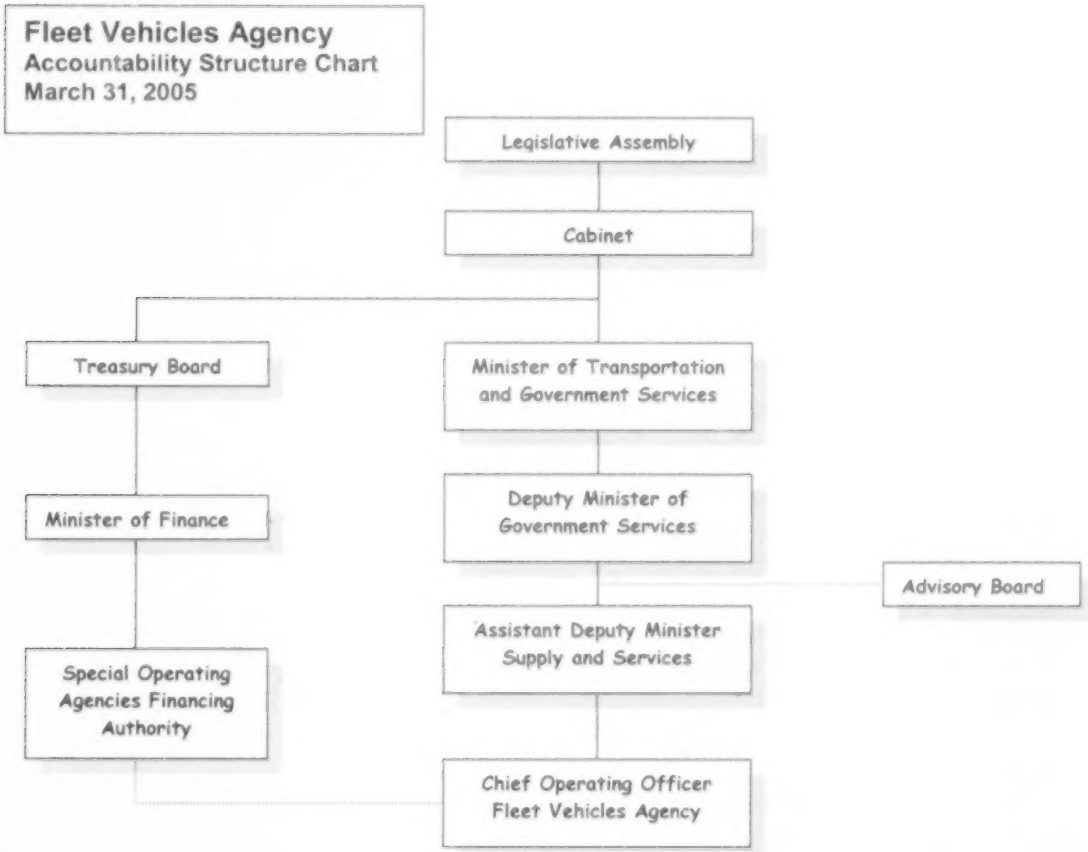
Accountability Structure

As an organization within Manitoba Transportation and Government Services, *FLEET* reports directly to the Assistant Deputy Minister, Supply and Services, and is held accountable to the Deputy Minister of Government Services and to the Minister of Transportation and Government Services for operational and financial performance.

The Agency operates outside of the Consolidated Fund under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for its liabilities.

Governance and accountability are substantiated by *FLEET*'s compliance with its Operating Charter, Transfer Agreement, Management Agreement, applicable General Manual of Administration policies, and by The Special Operating Agencies Financing Authority Act. Financial and operational information and requirements are disseminated to and from Treasury Board through a SOA Coordinator at Treasury Board Secretariat.

The Accountability Structure Chart presented below outlines the current structure.



Advisory Board

The Advisory Board for Fleet Vehicles Agency meets as required to review the Agency's financial and operating reports, the draft Business Plan, and any proposed changes to the Agency Charter. The Board's members offer advice and direction on reporting and management issues of concern to us, and on short and long term strategic planning.

Members of the *FLEET* Advisory Board as of March 31, 2005, are listed below.

Members of the Advisory Board for Fleet Vehicles Agency

CHAIR	***Debra Woodgate*** *Deputy Minister* Government Services	
MEMBERS		
Private Sector Representative	***Randy Manikel*** *Consultant* RIO Management and Consulting Ltd.	
Client Representatives	***John Hosang*** *Assistant Deputy Minister* Manitoba Transportation and Government Services	***David Wotton*** *Assistant Deputy Minister* Manitoba Conservation
Ex Officio	***Tracey Danowski*** *A/Assistant Deputy Minister* Manitoba Transportation and Government Services	***Dennis Ducharme*** *Chief Operating Officer* Fleet Vehicles Agency
Staff Representative	***Andy Chartrand*** *Environment and Program Analyst* Fleet Vehicles Agency	

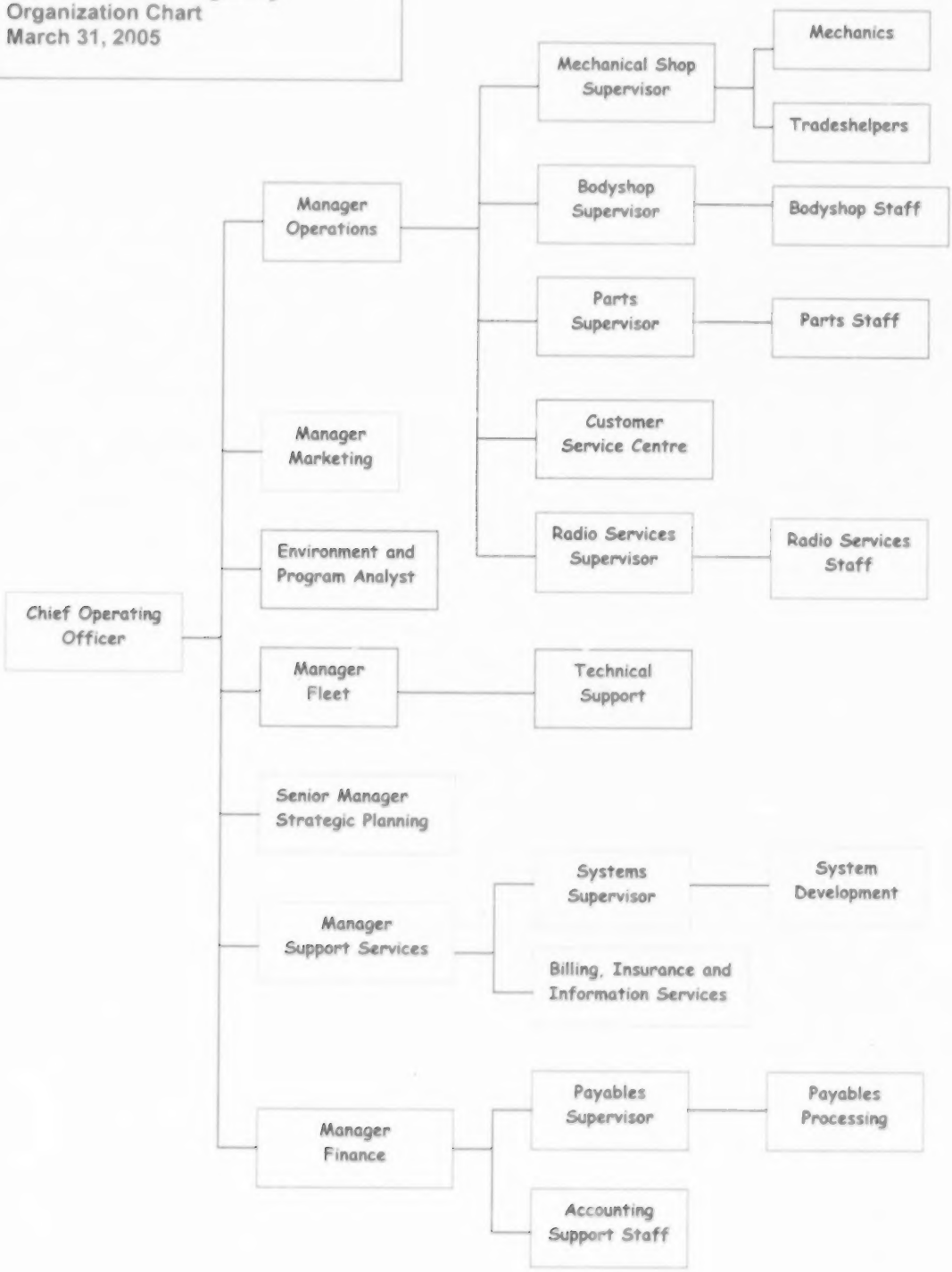
Organization Chart

On becoming a Special Operating Agency in 1992, *FLEET* operated with 48 approved staff positions. In January 2001, Treasury Board approved two additional positions, resulting in a staff complement of 50 regular Full Time Employees (FTEs) at *FLEET*. With the consolidation of the Radio Services operations into *FLEET* effective April 1, 2003, an additional nine FTE positions were transferred to the combined operations. As a result, *FLEET* currently operates with 59 FTEs. Term positions are added as required.

In January 2001, Treasury Board also approved delegated authority for the Agency to manage its staff complement independently, without prior Treasury Board approval, which means that the *FLEET* management can engage incremental staff as business circumstances dictate. This delegated authority is reviewed annually by Treasury Board as a part of their review of each year's Business Plan.

The Organization Chart presented on page 9 reflects the reporting and working relationships that have developed at *FLEET* in the years since we became a Special Operating Agency.

Fleet Vehicles Agency
Organization Chart
March 31, 2005



Operating Objectives and Results

Each year, the management and staff at *FLEET* identify key objectives in the preparation of our annual Business Plan that we consider important to the continuing success of the Agency. The four categories into which these factors fall during 2004/05 are highlighted below. The annual goals and objectives are monitored by management on a regular basis during the year through a detailed step-by-step performance framework that we call The *FLEET* Plan.

Highlights of our progress in meeting the performance targets that were included as a part of our 2004/05 Business Plan are provided below within each category.

Promoting Energy-Related Opportunities

Our goals during 2004/05 included continuing to work towards increased awareness of the government's Sustainable Development guidelines and initiatives with customer and prospective customer vehicle coordinators and drivers, and with all levels of staff at *FLEET*.

We have offered hybrid electric vehicles to our clients as new or replacement vehicles in their programs for the past three to four years, and have 11 (two 2001 Toyota Prius, two 2003 Honda Civic, four 2004 Honda Civic, and three 2005 GM Silverado trucks) in our fleet as of March 31, 2005 (eight assigned to departments, two in our short term rental pool, and one Prius now serving as our *FLEET* shuttle).

FLEET's 2006 Vehicle Ordering Guide highlights vehicles that are available with E85 capabilities (vehicles that are able to run on regular gasoline, or on a combination of gasoline and up to 85% ethanol), as well as other alternate and flexible fuel models that may be ordered. Our Environment and Program Analyst formally and informally meets with customers for consultation on E85s and other alternate and flexible fuel vehicles. As of June 2005, our fleet now includes 129 E85 vehicles—mostly vans and sedans, but also trucks, SUVs and Suburbans.

There was a directive in September 2002 to all government departments to advise their drivers that they are required to purchase ethanol-blended fuel where it is reasonably available. A part of *FLEET*'s job is to monitor and report on the results of this directive. In 2004/05, there were 1,820,106 litres of ethanol-blended fuel purchased for vehicles in the fleet, a decrease of 162,415 litres compared to litres purchased in 2003/04.

A session for all *FLEET* staff on Sustainable Development initiatives was held in June 2004. Presentations at the session were made by Climate Change Connection on climate change and the effects of greenhouse gases, Waste Stream Services on recycling, and by *FLEET*'s Environment and Program Analyst on the benefits of ethanol-blended fuel and the harmful effects caused by engine idling.

Consolidating the Operations of Radio Services into *FLEET*

Effective April 1, 2003, the Radio Services Program within the Desktop, Telecommunications and Network Services Branch of the Department of Transportation and Government Services was transferred to the Agency. Radio Services is responsible for evaluating and supplying the fixed and mobile radio requirements of its provincial and other clients, and operates from three shops, with a radio repair shop located in each of Winnipeg, Dauphin and Thompson. Inventory and equipment is a part of each shop location.

Consolidation of the Radio Services operations and records into *FLEET* is an ongoing process—a process that took a significant amount of time and effort in 2003/04, continued during 2004/05, and will continue further in 2005/06. Radio Services in Winnipeg continues to operate from Hangar T-5, 900 Ferry Road, near the Winnipeg Airport. During the first quarter of 2005/06, it was decided to do the ground work (contact Accommodation Development to get them to develop a package for tender purposes, draft blueprints, etc.) to prepare for the probable relocation of the Radio Services Winnipeg operations to *FLEET* at 626 Henry Avenue. To assist in making Radio Services one of the specialty functions offered by *FLEET*, Radio Services personnel continued to be a part of *FLEET*'s presence at school division and municipal tradeshows during 2004/05, and Radio Services is now also a part of *FLEET*'s website.

Marketing our Services to School Divisions and Rural Municipalities

Over the past several years, representatives from *FLEET* have attended and made presentations at conferences and tradeshows for school division organizations including the Manitoba Association of School Business Officials, Manitoba Association of School Trustees, and Manitoba Association of School Superintendents. In addition, we have made presentations to, or tendered on the replacement of school buses for, several school divisions.

As with school divisions, we have had expressions of interest from time to time from various municipalities about leasing arrangements for both new and "experienced" vehicles. Those expressions of interest primarily relate to trucks, vans and sedans, but have, on occasion, extended to fire trucks and other specialty vehicles. We have been a regular attendee at the Association of Manitoba Municipalities tradeshows for the past several years.

At the tradeshows, and as follow-up to those shows, we have been targeting school division and municipal decision-makers to present *FLEET*'s services and benefits to them. We have also made sure that they are aware of our ambulance and other specialty vehicle capabilities, and we have discussed the various services that *FLEET*'s repair facility can provide to them.

With *FLEET*'s assistance, the Radio Services staff has been marketing the FleetNet mobile radio services to emergency services operations in rural Manitoba municipalities. *FLEET* hopes to be able to piggyback on this opportunity to approach key people in the municipalities to also market *FLEET*'s products and services.

Working Towards a *FLEET*/MES Consolidation

In September 2003, Treasury Board approved in principle the proposal to consolidate *FLEET* and the Mechanical Equipment Services Branch (MES) of Transportation into a new SOA to deliver both heavy and light duty vehicular services. In November 2003, Treasury Board directed the Department to proceed to engage an external consultant to develop a detailed, time-framed implementation plan including financial implications, staffing levels and asset valuation implications for the Department and for the new SOA. In March 2004, a Request for Proposal was released on MERX, and a Management Committee was struck to oversee the selection of the consultant and the development of the implementation plan.

Developments during 2004/05 and the first quarter of 2005/06 include the following:

> The consulting firm of SNC-Lavalin Inc. was appointed in June 2004, and began its initial meetings and review of operations of both *FLEET* and MES in July 2004. The goal was to have the firm's final report towards the end of October or the early part of November 2004, if possible, so that information could be incorporated into a 2005/06 Business Plan for the new SOA.

In June 2005, the cost details and other aspects of the report are being addressed by Transportation and Government Services management before recommendations are presented to the department's two Deputy Ministers, the Minister, and Treasury Board.

Financial Performance

The following financial review and analysis compare the actual results for the year ended March 31, 2005, to the projections for the same period and to the actual results for the year ended March 31, 2004. This review and analysis should be read in conjunction with *FLEET*'s financial statements for the year (pages 17 to 27) and the summarization of key elements from the earnings statements in Table 1.

All dollar amounts in the review and analysis are in thousands of dollars.

Operating Results

Table 1 *(In thousands of dollars)*	**Actual** Year ended March 31 2005	**Projected** Year ended March 31 2005	**Actual 2004/05 vs. projected 2004/05** Increase/ (decrease)	**Actual** Year ended March 31 2004	**Actual 2004/05 vs. actual 2003/04** Increase/ (decrease)
Vehicle and equipment leases	$ 26,298	$ 26,367	$ (69)	$ 25,259	$ 1,039
Gain on disposal of vehicles and equipment, net	357	649	(292)	704	(347)
Interest income	7	34	(27)	35	(28)
Other revenue	2,188	1,832	356	1,898	290
Total *FLEET* revenue	**28,850**	**28,882**	**(32)**	**27,896**	**954**
Salaries	2,168	2,290	(122)	2,173	(5)
Vehicle and equipment operating expenses	22,938	22,345	593	21,291	1,647
Administrative expenses	1,489	1,561	(72)	1,360	129
Community service	43	29	14	44	(1)
Interest expense	1,022	1,147	(125)	1,089	(67)
Total *FLEET* expenses	**27,660**	**27,372**	**288**	**25,957**	**1,703**
***FLEET* earnings**	**1,190**	**1,510**	**(320)**	**1,939**	**(749)**
Radio Services earnings, net	**52**	**0**	**52**	**231**	**(179)**
Combined net earnings	**$ 1,242**	**$ 1,510**	**$ (268)**	**$ 2,170**	**$ (928)**

As indicated in Table 1, *FLEET* is reporting net earnings of $1,242 for the year ended March 31, 2005, compared to a projected $1,510 and an actual $2,170 for the years ended March 31, 2005 and 2004 respectively. Consequently, the net earnings for *FLEET* are $268 less than projected, and $928 less than the bottom line numbers a year ago.

There are several contributing factors that lowered our net earnings in 2004/05:

- Fuel prices jumped significantly during the first quarter, and have remained high since then, threatening to go even higher. Our average price per litre in the 2003/04 year was $0.6382. It was $0.7378 during the year ended March 31, 2005. The $0.0996 price difference for the 9,824,419 litres purchased during the year (including litres purchased for vehicles that are managed but not owned) accounts for an increased fuel expense of approximately $978.

- To offset the effects of the prices at the pumps, we increased our variable rate by two cents per kilometre effective July 1, 2004. During the last three quarters of 2004/05, drivers put on 41,301,681 kilometres. That number of kilometres times two cents per kilometre provided increased variable lease revenue of $826 during the nine months.

- Kilometres driven during the 2004/05 year were 54,010,649, a decrease of 2,255,568 from those driven during the 2003/04 year. A decrease of 2,255,568 kilometres at a variable rate of approximately 17 cents per kilometre (the approximate rate before the two cent increase) accounts for $383 in decreased revenues.

- The remaining decreased earnings lies primarily in the $347 decrease in our gain on disposal of vehicles and equipment between years. The majority of this decrease is the result of timing. Model year 2005 vehicle purchase orders went to the manufacturers later than is normal and consequently new vehicle arrivals were slower than projected. With arrivals slower than projected, the vehicles to be replaced were not available for auction when projected. Only 261 trucks, vans and sedans were disposed of during 2004/05 compared to 335 during 2003/04.

Another way of generalizing the decreased *FLEET* earnings is to point out that our vehicle and equipment lease revenues increased by $1,039 during the year, but our vehicle and equipment operating expenses increased by $1,647 during that same timeframe. Most of the increased expenses between years relates to the fuel expense increase explained above.

Professional fees for the 2004/05 year were $156 compared to only $20 a year ago, reflecting *FLEET*'s portion of the consultant's charges for the implementation plan to consolidate *FLEET* with the Mechanical Equipment Services Branch of Transportation.

Financial Position

Vehicle and equipment units total 2,743 as of March 31, 2005, compared to 2,624 as of March 31, 2004. The apparent increase in units is partly one of timing. Many of the model year 2005 vehicles were on hand at *FLEET* as of March 31, 2005, being readied for our customers, but the vehicles to be replaced were still on the road—so, some double counting of vehicles assigned or to be assigned to customers results. Auctions during the first and second quarters of 2005/06 should address this anomaly.

We received 380 units (350 trucks, vans and sedans, 20 ambulances, one school bus, and nine chassis attachments) during the year, and disposed of 261 trucks, vans and sedans. In addition, our Radio Services division purchased 100 radios that are leased to Conservation on a three year lease-to-own arrangement.

The reported average age of our fleet of 3.9 years, compared to 3.6 years a year ago, is influenced by the approximately 100 older vehicles in our fleet that will be replaced during

the first quarter of 2005/06, but it is also influenced by the decisions made by our customers to retain vehicles past their lease expiry dates—a situation that *FLEET* management is monitoring, and will have to address in the next couple of years.

The carrying or net book value of our capital assets at $43,221 is $2,701 more than projected and $2,546 more than it was as of March 31, 2004. Of the increase between year-ends, $1,714 relates to trucks, vans, sedans and related equipment, $857 relates to ambulances, and $71 relates to the Radio Services radios leased to Conservation. The carrying value of our other capital assets (equipment for operations and leasehold improvements) actually decreased by $96 during the year.

Our working capital payable position as of March 31, 2005, of $3,740 is slightly more than projected, and more than $1,000 more than it was as of March 31, 2004. There are a myriad of factors that influence that position at any moment in time, including management's decisions as to when and how much should be drawn down from Loan Act Authority, when payables should be paid, and how much collection pressure should be put on our customers.

Ratio Analysis

Table 2		March 31		
	Projected	Actual		
Ratio	2004/05 Year	**2005**	2004	2003
Return on total revenue (including Radio Services revenue)	4.98%	**4.07%**	7.32%	7.49%
Return on average assets	3.34%	**2.67%**	4.95%	4.73%
Return on average equity	8.62%	**6.99%**	12.41%	11.78%
Debt to equity	1.60 to 1	**1.73 to 1**	1.52 to 1	1.50 to 1
Current ratio	0.40 to 1	**0.33 to 1**	0.30 to 1	0.33 to 1
Days sales in receivables	35.0 days	**27.4 days**	22.9 days	21.1 days

The three calculated rates of return in Table 2 for the year ended March 31, 2005, are lower than the ratios in each of the preceding two years, and lower than the projected ratios, primarily because of our relatively low net earnings in 2004/05.

Our debt to equity ratio continues to track our increasing leverage, the result of borrowing to pay for the majority of the annual increase in the carrying value of our capital assets.

Although higher than the corresponding comparative numbers, the one ratio that continues to stand out is the days sales in receivables. The 27.4 days as of March 31, 2005, is considerably better than our targeted 35.0 days at the end of each quarter.

Responsibility for Financial Reporting

The Agency's management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations in accordance with Canadian generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgements. The Agency's financial statements have been audited by Grant Thornton LLP, independent external auditors.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that transactions are authorized, properly recorded and reported, and that assets are safeguarded.

An Advisory Board is available to meet, as required, with management to review accounting practices, financial reporting and to discuss audit results. During the year, management met twice with the Advisory Board. The auditors have free and full access to this Board, to discuss the results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

Dennis Ducharme
Chief Operating Officer

Albert Ogonoski
Manager, Finance

May 13, 2005

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the
Special Operating Agencies Financing Authority

We have audited the balance sheet of **Fleet Vehicles Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba** as at March 31, 2005 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Winnipeg, Canada
May 13, 2005

Chartered Accountants

900 - One Lombard Place
Winnipeg, Manitoba
R3B 0X3
T (204) 944-0100
F (204) 957-5442
E Winnipeg@GrantThornton.ca
W www.GrantThornton.ca

Canadian Member of Grant Thornton International

Financial Statements

Statements of Earnings and Retained Earnings
Year Ended March 31
(In thousands)

		2005	2004
Revenue	Vehicle and equipment leases	$ 26,298	$ 25,259
	Gain on disposal of vehicles and equipment, net	357	704
	Interest income	7	35
	Other revenue (Page 26)	2,188	1,898
		28,850	27,896
Expenses	Salaries	2,168	2,173
	Vehicle and equipment operating expenses (Page 26)	22,938	21,291
	Administrative expenses (Page 26)	1,489	1,360
	Community service	43	44
	Interest expense	1,022	1,089
		27,660	25,957
Earnings before other income		1,190	1,939
Other income	Radio Services, net (Page 27)	52	231
Net earnings		$ 1,242	$ 2,170

Retained earnings, beginning of year	$ 13,622	$ 12,952
Net earnings	1,242	2,170
Revenue sharing to the Consolidated Fund	(1,500)	(1,500)
Retained earnings, end of year	$ 13,364	$ 13,622

See accompanying notes to the financial statements.

Financial Statements

Balance Sheet
March 31
(In thousands)

		2005	2004
Assets	Current		
	Receivables (Note 3)	$ 2,597	$ 2,129
	Inventories	185	231
	Prepaids	1,859	1,739
		4,641	4,099
	Capital assets (Note 4)	43,221	40,675
	Receivable from the Province of Manitoba		
	Severance pay benefits (Note 5)	270	270
		$ 48,132	$ 45,044
Liabilities	Current		
	Working capital payable, net of cash (Note 6)	$ 3,740	$ 2,660
	Payables and accruals	2,849	2,256
	Unearned revenue	1,046	1,014
	Current portion of long-term debt	6,219	7,877
		13,854	13,807
	Long-term debt (Note 7)	16,203	12,945
	Severance pay liability (Note 5)	427	386
		30,484	27,138
Equity	Contributed equity (Note 8)	4,284	4,284
	Retained earnings	13,364	13,622
		17,648	17,906
		$ 48,132	$ 45,044

Commitments (Note 9)

See accompanying notes to the financial statements.

Financial Statements

Statement of Cash Flows
Year Ended March 31
(In thousands)

		2005	2004
Increase (decrease) in cash and cash equivalents			
Operating	Net earnings	**$ 1,242**	$ 2,170
	Amortization	**8,814**	8,521
	Gain on disposal of vehicles and equipment, net	**(357)**	(704)
	Increase in severance pay liability	**41**	108
	Payment of severance pay benefits		(12)
		9,740	10,083
	Change in		
	Receivables	**(468)**	(329)
	Inventories	**46**	(162)
	Prepaids	**(120)**	(201)
	Payables and accruals	**593**	1,369
	Revenue sharing to the Consolidated Fund		(375)
	Unearned revenue	**32**	34
		9,823	10,419
Investing	Proceeds from disposal of vehicles and equipment	**1,440**	1,670
	Acquisition of vehicles and equipment for lease	**(12,268)**	(10,941)
	Acquisition of equipment for operations	**(175)**	(158)
	Consolidation of net assets of Radio Services		166
		(11,003)	(9,263)
Financing	Proceeds from Loan Act Authority drawdowns	**10,045**	3,100
	Long-term debt repayments	**(8,445)**	(2,567)
	Revenue sharing to the Consolidated Fund	**(1,500)**	(1,500)
	Receivable from the Province of Manitoba		(76)
		100	(1,043)
Net (decrease) increase in cash and cash equivalents		**(1,080)**	113
Working capital payable, net of cash and cash equivalents			
	Beginning of year	**(2,660)**	(2,773)
	End of year	**$ (3,740)**	$ (2,660)

See accompanying notes to the financial statements.

Financial Statements

Notes to the Financial Statements
March 31, 2005
(In thousands)

1. Nature of organization

In 1934, Fleet Vehicles was created as a branch of the Manitoba Provincial Government to provide a centralized fleet management program. It was established to achieve economies of scale and to lower overall fleet costs to government.

Effective April 1, 1992, the Fleet Vehicles branch was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council.

Effective April 1, 2003, the Radio Services Program within the Desktop, Telecommunications and Network Services Branch of the Department of Transportation and Government Services was transferred to the Agency.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A 1992 Management Agreement between SOAFA and the then Minister of Government Services assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of SOAFA.

Fleet Vehicles Agency continues to be part of Manitoba Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and the Minister of Transportation and Government Services.

Fleet Vehicles Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

Fleet Vehicles Agency is economically dependent on The Government of Manitoba, as it derives most of its revenue and all of its capital financing requirements from the Province.

2. Significant accounting policies

Basis of reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and short term investments with original maturities of six months or less. Bank borrowings are considered to be financing activities.

Financial Statements

Notes to the Financial Statements
March 31, 2005
(In thousands)

2. ***Significant accounting policies*** (continued)

Inventories

Inventories are valued at the lower of cost and market value. Cost is determined on a weighted average basis.

Capital assets

Rates and bases of amortization applied to write off the cost less estimated salvage value of capital assets over their estimated lives are as follows:

Vehicles	30%, declining balance
Vehicles and equipment (signed lease agreement)	straight line over term of lease
Office and shop equipment	20%, declining balance
Computer software and equipment	20%, straight line
Leasehold improvements	10%, straight line

Pension benefits

Employees of Fleet Vehicles Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act, administered by the Civil Service Superannuation Board.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred the pension liability for its employees to the Province.

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for the year ended March 31, 2005, was $121 (2004: $112).

Use of estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Financial instruments

The Agency's financial instruments consist of accounts receivable, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

Revenue recognition

Fixed rate lease revenue is recognized on a straight-line basis over the term of the lease. Variable rate lease revenue is recognized monthly based on equipment usage. Service revenue is recognized when the services have been performed.

Financial Statements

Notes to the Financial Statements
March 31, 2005
(In thousands)

3. Receivables

	2005	2004
Trade	$ 1,342	$ 964
Accrued trade	867	798
Insurance agency rebate receivable	388	367
	$ 2,597	$ 2,129

4. Capital assets

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Vehicles and equipment for lease	$ 79,449	$ 36,751	$ 42,698	$ 40,056
Office, shop and computer equipment	1,214	890	324	370
Leasehold improvements	589	390	199	249
	$ 81,252	$ 38,031	$ 43,221	$ 40,675

5. Severance pay liability

Effective April 1, 1998, the Agency commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of 15 years, by the weekly salary at date of retirement, provided the employee has reached nine years of service and retires from the Agency. Effective April 2000, there is also additional severance pay for employees with 20 or more years of accumulated service. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees through specific dates. That responsibility is currently reflected by a $194 receivable from the Province for the employees at the Agency as of March 31, 1998, together with a $76 receivable from the Province for the employees at Radio Services as of March 31, 2003, who are also now with the Agency.

The receivable from the Province will only be collected, in whole or in part, in the event there is a cash short fall in the Agency. It is probable, therefore, that collection will only occur on the dissolution of the Agency.

An actuarial valuation report from February 2001 provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's liability is recalculated annually, with payments to retiring employees no longer with the Agency or the Province charged against the liability.

Financial Statements

Notes to the Financial Statements
March 31, 2005
(In thousands)

6. Working capital payable

The Agency has an authorized line of working capital advances of $4,000, $3,778 of which was used as of March 31, 2005 (2004: $2,730).

7. Long-term debt

By virtue of the Management Agreement, the Agency is responsible for the repayment of debts assumed by the Special Operating Agencies Financing Authority (SOAFA) on its behalf. SOAFA holds the debt instruments listed in this Note on behalf of Fleet Vehicles Agency.

Loan Act Authority long-term debt is repayable in semi-annual instalments of principal and interest, as follows:

Interest Rate	Instalment Amount	Maturity Date	Principal Balance Owing March 31 2005	2004
5 1/2 %	$ 232	March 31, 2004	$	$ 225
6%	141	March 31, 2004		137
6 7/8%	408	March 31, 2005		1,143
6 5/8%	167	September 30, 2005	**161**	615
5 3/4%	495	March 31, 2006	**949**	2,275
5 3/8%	121	September 30, 2006	**345**	663
4 3/4%	243	September 30, 2006	**695**	1,344
5 5/8%	174	March 31, 2007	**650**	1,093
4 1/4%	179	September 30, 2007	**842**	1,307
4 3/4%	397	March 31, 2008	**2,198**	3,186
6.425%	146	March 31, 2009	**1,015**	1,334
3 5/8%	149	March 31, 2009	**1,103**	1,355
3 1/2%	259	March 31, 2009	**1,916**	
5 1/4%	159	September 30, 2009	**1,263**	1,622
5 5/8%	134	September 30, 2009	**1,055**	1,352
4 1/8%	56	September 30, 2009	**455**	
4%	167	March 31, 2010	**1,500**	
4 3/8%	438	March 31, 2010	**3,900**	
5 1/8%	123	September 30, 2010	**1,162**	1,426
4 7/8%	137	September 30, 2011	**1,507**	1,745
4 3/4%	137	September 30, 2012	**1,706**	
Total principal owing as of March 31			**22,422**	20,822
Amount due within one year			**6,219**	7,877
Long-term debt as of March 31			**$ 16,203**	$ 12,945

Financial Statements

Notes to the Financial Statements
March 31, 2005
(In thousands)

7. *Long-term debt* (continued)

Unused loan authority of $4,000 was available as of March 31, 2004. An additional $7,000 of loan authority availability was approved during June 2004 in The Loan Act, 2004. Following the draw down of $10,045 during the year, there is $955 in unused loan authority remaining as of March 31, 2005, to be used towards the purchase of vehicles and equipment for lease.

Principal ($2,685) and interest ($500) payments due on March 31, 2004, were not made until April 2004. Accordingly, the principal amount paid within the year ended March 31, 2005, included the principal portions for three semi-annual payments.

As of March 31, 2005, principal repayments in each of the next five years are as follows:

2006	$ 6,219
2007	4,987
2008	4,316
2009	3,530
2010	2,224

8. *Contributed equity*

The Special Operating Agencies Financing Authority (SOAFA) and The Government of Manitoba entered into a Transfer Agreement in connection with the transfer from the Government to SOAFA of assets valued at $12,353 required for the continuing operations of Fleet Vehicles Agency as of March 31, 1992. The Agency has repaid the debt portion in the amount of $8,235 (2/3 of the value of the assets) and has recorded the balance of $4,118 (1/3 of the value of the assets) as the Government's equity in SOAFA relating to the Agency's operations.

The Agency's contributed equity was increased by $166 as of April 1, 2003, with the transfer of the net assets of Radio Services to the Agency.

9. *Commitments*

(a) Pursuant to a Memorandum of Understanding dated May 31, 1996, the Agency entered into a lease agreement with The Government of Manitoba through Manitoba Government Services for the rental of the facilities at 626 Henry Avenue, Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2005/06 are established annually based on the approved budget for the Department of Transportation and Government Services. Occupancy charges for 2005/06 are estimated at $461 for the year, to be paid in quarterly instalments during 2005/06.

(b) Occupancy charges for the Winnipeg premises for the Radio Services division of the Agency are established annually based on the approved budget for the Department of Transportation and Government Services. Occupancy charges for 2005/06 are estimated at $37 for the year, to be paid in quarterly instalments during 2005/06.

(c) The Agency's approved 2005/06 Business Plan calls for $1,500 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2005/06.

Financial Statements

Notes to the Financial Statements
March 31, 2005
(In thousands)

10. Requirements of The Public Sector Compensation Disclosure Act

Pursuant to Section 2(1) of the Act, the following employees of Fleet Vehicles Agency received compensation, directly or indirectly, of $50 or more in the fiscal year ended March 31.

Name	Position	2005	2004
Kathryn Bernhardt	Manager, Support Services	$ 59	$ 54
Derek Boutang	Systems Analyst	61	59
Donald Chesney	Manager, Fleet	66	66
Dennis Ducharme	Chief Operating Officer	86	83
Richard Heck	Systems Analyst	52	
Jordan Janisse	Systems Supervisor	71	66
Kevin Kilbrei	Manager, Marketing	55	52
David Kroeker	Programmer Analyst	61	55
Vladimair Lachowsky	Radio Services Technician		53
Albert Ogonoski	Manager, Finance	64	62
Franklin Recknell	Radio Services Technician		62
William Reynolds	Senior Manager, Strategic Planning	63	62
Guy Sinclair	Manager, Operations	69	66
Sean Stephen	Radio Services Supervisor	55	64

Financial Statements

Schedule of Other Revenue and Expenses – Vehicles and Equipment
Year Ended March 31
(In thousands)

		2005	2004
Other revenue	Service	$ 981	$ 837
	Rebates	813	768
	Autopac service revenue	394	293
		$ 2,188	$ 1,898
Vehicle and equipment operating expenses	Amortization	$ 8,614	$ 8,354
	Fuel	7,248	6,218
	Insurance premiums	3,216	3,010
	Repairs and maintenance	3,860	3,709
		$ 22,938	$ 21,291
Administrative expenses	Amortization	$ 142	$ 149
	Fleet management information system	161	155
	Human resource overhead	435	436
	Occupancy costs	441	426
	Other costs	84	85
	Professional fees	147	20
	SOAFA charges	3	2
	Supplies and materials	48	60
	Telephone and communication	28	27
		$ 1,489	$ 1,360

Financial Statements

Schedule of Revenue and Expenses – Radio Services
Year Ended March 31
(In thousands)

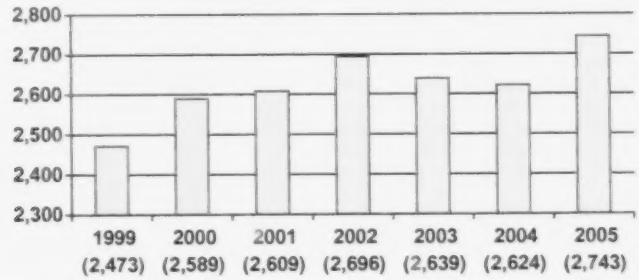
		2005	2004
Revenue		**$ 1,692**	$ 1,757
Operating expenses	Parts and repairs	**842**	783
	Salaries	**352**	484
	Licenses	**138**	
		1,332	1,267
		360	490
Administrative expenses	Amortization	**58**	18
	Fleet management information system	**23**	24
	Human resource overhead	**78**	61
	Occupancy costs	**49**	43
	Other costs	**2**	1
	Professional fees	**9**	
	Supplies and materials	**7**	21
	Telephone and communication	**14**	18
	Transportation	**68**	73
		308	259
Radio Services, net		**$ 52**	$ 231

Note to schedule: The revenue for the year ended March 31, 2004, includes $139 in billings for licenses and access fees which have no matching cost. The cost portion of the licenses and access fees was recorded on a cash basis in 2002/03 in the records of Desktop, Telecommunication and Network Services.

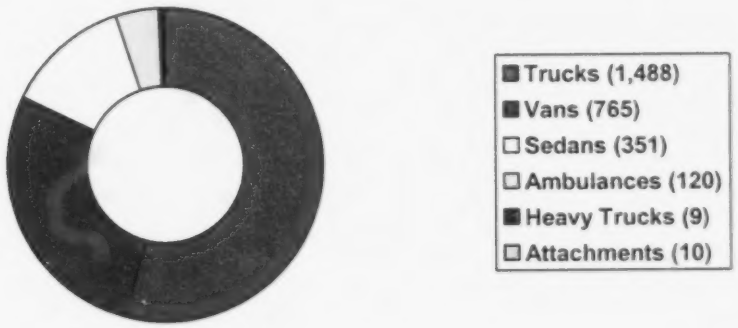
FLEET Facts

Year ended March 31	Projected 2004/05	**Actual 2004/05**	Actual 2003/04
Distance			
Total kilometres driven (000s)	55,927	**54,011**	56,266
Revenue			
Total lease revenue (000s)	$ 26,367	**$ 26,298**	$ 25,259
All other *FLEET* revenue (000s)	$ 2,515	**$ 2,552**	$ 2,637
Total *FLEET* revenue (000s)	$ 28,882	**$ 28,850**	$ 27,896
Average lease rate per kilometre	$ 0.4715	**$ 0.4869**	$ 0.4489
Fleet Composition			
Trucks, vans and sedans - full fleet management services	2,248	**2,363**	2,257
Trucks, vans and sedans - dry (no fleet management services)	257	**260**	267
Ambulances – full fleet management services	120	**120**	100
Total number of vehicles in the fleet	2,625	**2,743**	2,624
Acquisitions – Vehicles and equipment, other than ambulances	335	**360**	300
Acquisitions - Ambulances	20	**20**	20
Average acquisition cost - Trucks, vans and sedans (000s)	$ 27.1	**$ 29.0**	$ 30.6
Average acquisition cost - Ambulances (000s)	$ 91.0	**$ 91.8**	$ 87.8
Disposals - Trucks, vans and sedans	310	**261**	335
Average disposal proceeds (000s)	$ 6.2	**$ 5.5**	$ 5.0
Gain on disposal of vehicles (000s)	$ 649	**$ 357**	$ 708
Average vehicle age (in years)	3.6	**3.9**	3.6
Fuel Consumption			
Litres for full fleet management services vehicles (000s)	9,630	**9,246**	9,743
Price per litre	$ 0.6854	**$ 0.7378**	$ 0.6382
Litres consumed per 100 kilometres	17.22	**17.12**	17.32

Vehicles and Related Equipment as of March 31 *(in units)*

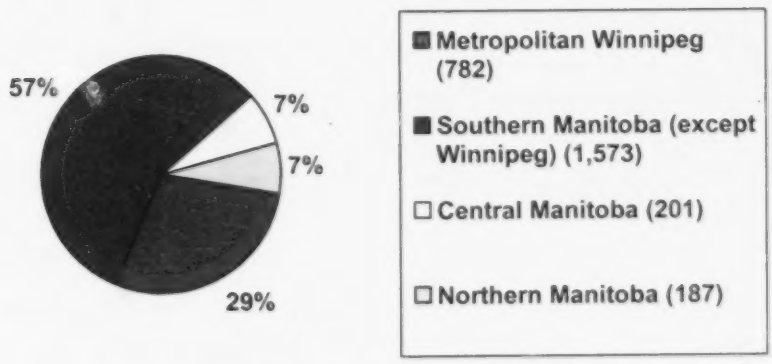


Vehicle and Equipment Type as of March 31, 2005 *(in units)*

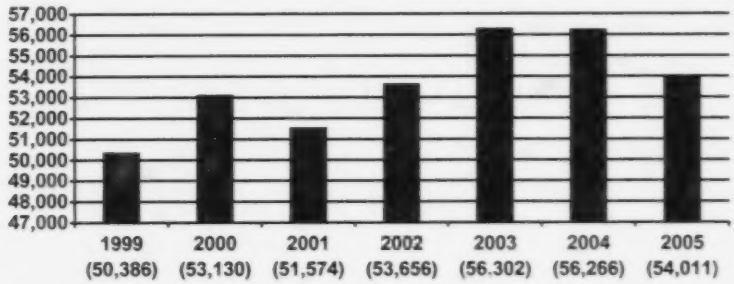


Distribution of Vehicles and Equipment as of March 31, 2005

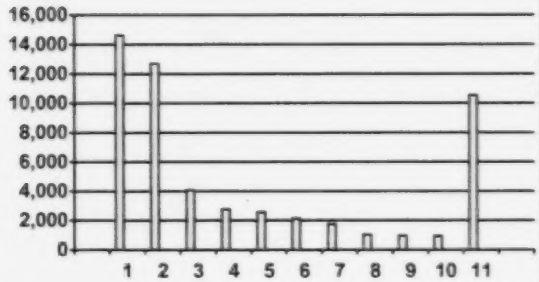
(as designated by MPI regions)



Fleet Distance *(in thousands of kilometres)*



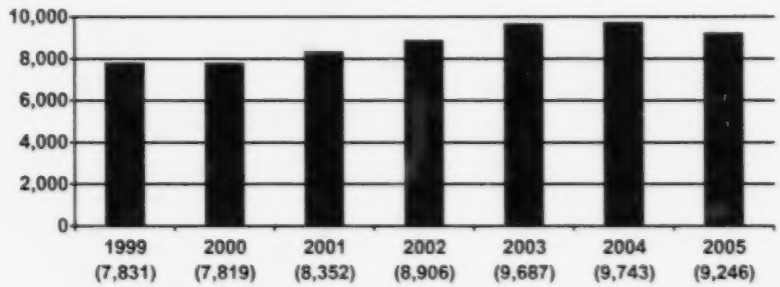
Distance by Department in 2004/05
(in thousands of kilometres)



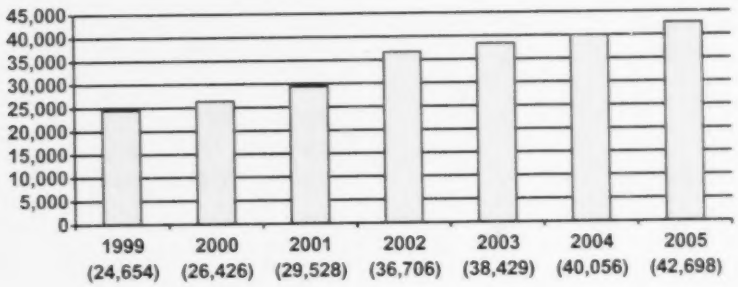
Distance by Department Legend
(in thousands of kilometres)

1.	Transportation and Government Services	14,619
2.	Conservation	12,694
3.	Health – Emergency Services	4,055
4.	Justice	2,769
5.	Family Services and Housing	2,569
6.	Manitoba Lotteries Corporation	2,121
7.	Agriculture, Food and Rural Initiatives	1,752
8.	Intergovernmental Affairs and Trade	1,035
9.	MB Housing and Renewal Corp.	945
10.	Office of the Fire Commissioner	938
11.	Others (94 other customers)	10,514
	Total distance in 2004/05	54,011

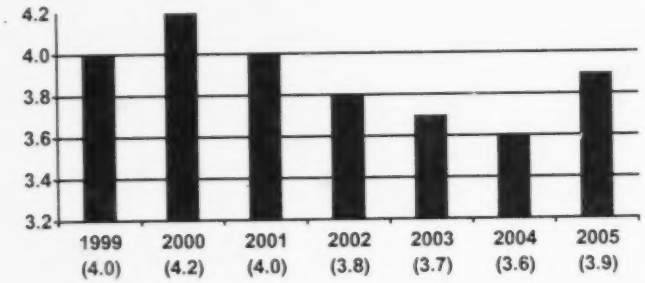
Fuel Consumption for Full Fleet Management Services Vehicles *(in thousands of litres)*



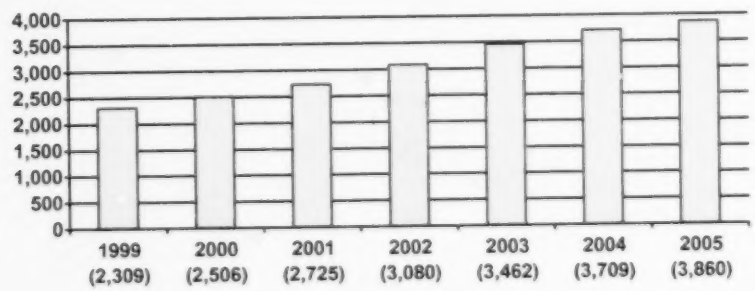
Carrying Value (Cost less Accumulated Amortization) of Vehicles and Equipment for Lease *(in thousands of dollars)*



Average Vehicle Age *(in years)*



Vehicle Repairs and Maintenance Costs *(in thousands of dollars)*



FLEET Contacts

Dennis Ducharme
Chief Operating Officer
Phone: (204) 945-3680

Don Chesney
Manager, Fleet
Phone: (204) 945-3303

Guy Sinclair
Manager, Operations
Phone: (204) 945-8897

Grant Fraser
Mechanical Shop Supervisor
Phone: (204) 945-5559

Robert Nolin
Bodyshop Supervisor
Phone: (204) 945-8135

Andy Chartrand
Environment and Program Analyst
Phone: (204) 945-5242

Kathryn Bernhardt
Manager, Support Services
Phone: (204) 945-3309

Kevin Kilbrei
Manager, Marketing
Phone: (204) 945-4462

Albert Ogonoski
Manager, Finance
Phone: (204) 945-4793

Bill Reynolds
Senior Manager, Strategic Planning
Phone: (204) 945-3506

Sean Stephen
Radio Services Supervisor
Phone (204) 945-8988

Susie Ehnes and **Gisele Fazackerley**
Customer Service
Phone: (204) 945-3443, 945-3441
and 1-800-363-6693

Fleet Vehicles Agency

626 Henry Avenue
Winnipeg, Manitoba
R3A 1P7
Phone: (204) 945-0275
Fax: (204) 957-1109
E-Mail: fvainfo@fva.gov.mb.ca
Web Site: www.fva.gov.mb.ca

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Fleet Vehicles Agency
626 Henry Avenue
Winnipeg, Manitoba
R3A 1P7
Phone: (204) 945-0275
Fax: (204) 957-1109
E-Mail: fvainfo@fva.gov.mb.ca
Web Site: www.fva.gov.mb.ca

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